SOUTH AFRICA

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Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998	
Income, Production and Employment: 1/				
Nominal GDP (at nominal prices)	126.2	129.0	111.0	2/
Real GDP Growth (pct)	3.2	1.7	0.5 (est)	
GDP by Sector:				
Agriculture	5.4	5.2	4.3	2/
Mining and Quarrying	9.1	8.9	7.7	2/
Manufacturing	26.7	27.5	23.0	2/
Wholesale/Retail Trade	18.1	18.5	15.7	2/
Financial Services	19.6	20.6	18.5	2/
Government	17.1	17.6	15.0	2/
Per Capita GDP (US$)	2,983	2,987	N/A	
Labor Force (millions)	13.8	14.0	N/A	
Unemployment Rate (pct)	21.0	22.9	25.0 (est)	
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)	15.7	18.7	20.0 (est)	
Consumer Price Index	7.4	8.6	9.0 (est)	
Exchange Rate (Rand/US$ annual average) 2/				
Unified	4.3	4.6	5.8 (est)	
Balance of Payments and Trade:				
Total Exports FOB 3/	16.9	28.3	16.15	
Exports to U.S. 4/	1.6	1.7	N/A	
Total Imports CIF 3/	17.0	27.6	16.19	
Imports from U.S.	3.4	3.5	N/A	
Trade Balance 3/	-0.1	0.7	0.45	
Trade Balance with U.S. 4/	-1.8	-1.8	N/A	
External Public Debt 5/	6.0	5.4	N/A	
Fiscal Deficit/GDP (pct)	-6.1	-5.6	N/A	

Current Account Deficit/GDP (pct)	1.3	1.5	N/A
Debt Service Payments/GDP (pct)	6.1	6.1	6.7
Gold and Foreign Exchange Reserves	1.7	3.7	N/A
Aid from U.S. (US$ millions) 6/	163.5	110.5	71.3
Aid from Other Countries 7/	N/A	N/A	N/A

1/ The following exchange rates were used in the calculations: $1:R4.3 for 1996, $1:R4.61 for 1997, and an estimated $1:R5.80 for 1998.

2/ Based on second quarter data, seasonally adjusted at annual rates. Declines are due to the rapid depreciation of the rand. See note 1.

3/ All South African trade statistics include export and import data for the five members of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland) up to December 1997.

4/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through October 1998.

5/ The figures used are for total foreign debt.

6/ The figures represent aid from USAID only.

7/ SA has received substantial aid from all over the world. However, there is no comprehensive audit of the total aid given to SA to date.

l. General Policy Framework

South Africa is a middle-income developing country with well-developed financial, legal, communications, energy, and transport sectors, a stock exchange which ranks among the 20 largest in the world, and a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. Nearly four years since the historic election of President Nelson Mandela in the country's first multi-racial elections, South Africa remains the most advanced, broadly-based, and productive economy in Africa, with a Gross Domestic Product (GDP) nearly four times that of Egypt, its closest competitor on the African continent.

Decades of apartheid-era policies resulted in the inefficient use of human resources, under-investment in human capital, labor rigidities, large budgetary outlays for duplicative layers of government and facilities, extensive governmental interference in the economy, and a lack of foreign investment and imported goods resulting from international sanctions. In the lead up to the 1994 elections, the South African economy started enjoying a period of recovery after more than four years of negative real GDP growth from 1988-1992. The economy has posted real growth rates of 2.5 percent in 1994, 2.8 percent in 1995, 3.2 percent in 1996 and 1.7 percent in 1997. The 1998 growth rate is likely to come in well below 1 percent mainly due to the financial turmoil which hit almost all emerging markets.

South Africa faces daunting developmental problems resulting from decades of apartheid-era policies. The government’s highest objectives are black economic empowerment, promotion of small, medium, and micro enterprises, the extension of telecommunications, transportation, and other infrastructure links to unserved rural areas, and extensive job creation to offset rapid population growth estimated at 2.4 percent.

The government demonstrated its commitment to open markets, privatization, and a favorable investment climate with the release of its macroeconomic strategy, GEAR, in June 1996. This strategy includes tax incentives to stimulate new investment in labor-intensive projects, expansion of infrastructural services, restructuring of state assets, and continued reduction of tariffs to promote greater competition and industrial revitalization. These efforts, together with South Africa's commitment to its World Trade Organization (WTO) obligations, show that South Africa is moving slowly but steadily towards free market principles.

Over the last decade, quantitative credit controls and administrative control of deposit and lending rates have largely disappeared. The South African Reserve Bank (SARB) now operates in much the same way as western central banks, influencing interest rates and controlling liquidity through its rates on funds provided to private sector banks, and to a lesser degree through the placement of government paper. In the past four years, restrictive monetary policy, through the maintenance of relatively high central bank lending rates, has curbed domestic spending on imports and reduced inflation to its lowest rates in twenty years.

The government primarily finances its sizable debt through the issuance of government bonds. To a lesser extent, the government has opted to finance some short-term debt obligations through the sale of foreign exchange and gold reserves. As a corollary to its restrictive financial policies, the government has not opted to finance deficit spending through loans from commercial banks.

2. Exchange Rate Policy

Under South African exchange regulations, the SARB has substantial control over foreign currency. Exchange controls are administered by the SARB's Exchange Control Department and through commercial banks that have been authorized to deal in foreign exchange. All international commercial transactions must be accounted for through these "authorized foreign exchange dealers." In addition, the SARB is a marketing agent for gold, which accounts for roughly 18 percent of export earnings. This provides the SARB wide latitude for determining short-term exchange rates. Except for a period in 1987 when the SARB followed an implicit policy of fixing the rand against the dollar, monetary authorities normally allow the rand to adjust in an attempt to stabilize external accounts.

While the SARB recognized that the low level of hard currency reserves necessitated continued inflow of long-term capital, the government of national unity eliminated the previous dual exchange rate and established a unified exchange rate on 20 March 1995. Nonetheless, South Africa still maintains several capital controls to prevent large capital outflows. The government is more likely to approve foreign exchange purchases for investment abroad if the foreign partner of the South African party conducts an asset swap, whereby an equivalent amount of foreign exchange is invested in South Africa by the foreign partner. Although domestic as well as foreign business concerns have lobbied hard for the lifting of the asset swap requirement, it is unlikely that the government will do so until foreign reserve levels approach the three-month coverage level. While foreign reserves are currently at about $5.5 billion, the SARB maintains a large Net Open Forward Position of 22.6 billion as of the end of November 1998.

3. Structural Policies

Prices are generally market-determined with the exception of petroleum products, electricity, transport services and certain agricultural goods. Purchases by government agencies and major private buyers are by competitive tender for projects or supply contracts. Bidders must pre-qualify, with some preferences allowed for local content.

The main sources of government revenue in South Africa are income taxes and the Value-Added Tax (VAT). Both personal and corporate income tax rates are among the highest in the world. Although the government planned to phase down both individual and corporate tax rates through year-end 1999, fiscal constraints have slowed plans to do so. In April 1993, the government increased the VAT rate from its previous level of 10 percent to 14 percent in an effort to cover the shortfall in government revenues and meet increasing expenditures.

The government has undertaken some measures in the past two years to ease the tax burden on foreign and domestic investors. It reduced the corporate primary income tax rate to 35 percent from its previous rate of 40 percent in 1994. The Non-Resident Shareholders Tax on foreign investors was scrapped effective October 1, 1995. In addition, the Secondary Tax on Corporate Dividends was halved to 12.5 percent in March 1996.

4. Debt Management Policies

In 1985, burdened with large capital outflows and intense pressure against the rand, and denied access to foreign capital by international sanctions, the government declared a unilateral standstill on amortization payments to private concerns. Interest payments, however, were continued, and amortization payments to international organizations and foreign governments were unaffected, obviating the need for a Paris Club rescheduling. The debt "standstill" was regularized in an arrangement with private creditors in 1986. In 1990, South Africa and its private creditors negotiated a third extension of that arrangement through the end of 1993. In September 1993, the government finalized a debt agreement with major western banks on $5 billion worth of mostly private debt caught inside the "standstill net."

At the end of 1997, the SARB reported that total foreign (public and private) debt amounted to approximately $39 billion. The ratio of total foreign debt to GDP has remained steady at around 26 to 30 percent over the past three years, while interest payments as a percentage of total export earnings have remained at levels ranging from 9.2 percent in 1995 to 10.6 percent in 1997.

South Africa is a member of the World Bank and International Monetary Fund (IMF) and continues Article IV consultations with the latter on a regular basis. In December 1993, after 27 years of economic isolation, South Africa became an IMF borrowing nation with an $850 million drought relief loan, which replenished South Africa's strained foreign exchange reserves and normalized its international financial relations. South Africa is also obtaining a modest World Bank loan, and is in discussions regarding other small grants or loans as well as greater utilization of World Bank advisory and training assistance to help with its ambitious development objectives.

There is no comprehensive audit of the total aid given to SA to date. The Department of Finance in conjunction with the United Nations Development Program (UNDP) is compiling a Development Report to be published in March 1999 detailing the total aid to SA and the breakdown of sources by agencies and countries.

Besides the aid from USAID noted in the front table, the U.S. also provides military aid estimated at $1.25 million for FY 1997/98.

5. Significant Barriers to U.S. Exports

Under the terms of the Import and Export Control Act of 1963, South Africa's Minister of Trade and Industry may act in the national interest to prohibit, ration, or otherwise regulate imports. In recent years, the list of restricted goods requiring import permits has been reduced, but still includes such goods as certain foodstuffs, clothing, fabrics, wood and paper products, refined petroleum products and chemicals.

Although the government eliminated the import surcharge on all goods effective October 1 1995, in conformance with its WTO commitments, it still maintains a complex tariff structure. Nonetheless, the government remains committed to the simplification and eventual reduction of tariffs within the WTO framework, and maintains active discussions with that body and its major trading partners.

The government is attempting to centralize and standardize the buying procedures of national, provincial, local, and state-owned corporate entities. Purchases are by competitive tender for project, supply and other contracts. As part of the government's policy to encourage local industry, a price preference schedule, based on the percent of local content in relation to the tendered price is employed to compare tenders. To claim preference for local content, tenders must enclose with their bid a certificate showing classification of supplies offered in terms of local content.

An additional preference may be claimed if a product bears the mark of the South African Bureau of Standards. On tenders of less than R2 million ($350,000), the government awards preference points to enterprises and companies operating in South Africa that demonstrate significant ownership or employment of previously disadvantaged individuals.

In late 1996, the government approved the Industrial Participation Program (IPP) which mandates a countertrade/offset package for all state and parastatal purchases of goods, services, and lease contracts in excess of $10 million. Under the program, all bidders on government and parastatal contracts who exceed the imported content threshold must also submit an industrial participation package worth 30 percent of the imported content value. The bidder then has 7 years to discharge the industrial participation obligation. Non-performance of the contract is subject to a penalty of 5 percent of the outstanding industrial participation obligation.

6. Export Subsidies Policies

The primary subsidy regime of the government was the General Export Incentive Scheme (GEIS) through which South African exporting companies received direct non-discriminatory cash subsidies based on the value of exports, the degree of beneficiation or processing, and the local content of the exported product. The government has shown steadfast commitment to the elimination of export subsidies despite considerable opposition from local manufacturers. The Department of Trade and Industry "revised" the GEIS in early 1995, "downsized" it in early 1996, and officially eliminated the program in July 1998.

Instead, the government has focused on other, more WTO-friendly means of promoting South African exports. The Export Marketing Assistance Scheme (EMA) offers financial assistance for the development of new export markets, through financing for trade missions and market research. The new Export Finance Guarantee Scheme for small exporters promotes small and medium exporters through credit guarantees with participating financial organizations. Provisions of the Income Tax Act also permit accelerated write-offs of certain buildings and machinery associated with beneficiation processes carried on for export, and deductions for the use of an export agent outside South Africa.

7. Protection of U.S. Intellectual Property

Patents may be registered under the Patents Act of 1978 and are granted for 20 years. Trademarks can be registered under the Trademarks Act of 1973, and are granted for ten years with a possible renewal of an additional ten years. New designs may be registered under the Designs Act of 1967 which grants copyrights for five years. Literary, musical and artistic works, cinematographic films and sound recordings are eligible for copyrights under the Copyright Act of 1978. This act is based on the provisions of the Berne Convention as modified in Paris in 1971 and was amended in 1992 to include computer software. The Patents, Trademarks, Designs, and Copyrights Registrar of the Department of Trade and Industry administers these acts.

South Africa is a member of the Paris Union and acceded to the Stockholm Text of the Paris Convention for the Protection of Industrial Property. South Africa is also a member of the World Intellectual Property Organization. The government passed two IPR-related bills in parliament at the end of 1997: the Counterfeit Goods Bill and the Intellectual Property Laws Amendment Bill, bringing South Africa's laws largely into conformity with its international trade obligations under the Trade Related Intellectual Property Agreement of the WTO.

Although South Africa's intellectual property laws and practices are generally in conformity with those of the industrialized nations, firms do experience some problems. The trademarks of a number of U.S. companies were misappropriated under the former government, when local firms took advantage of inadequate protection for famous marks. In April 1995, the U.S. Trade Representative placed South Africa on the "Special 301" Watch List in an attempt to resolve these cases. South Africa was removed from the list in 1996 due to progress on several fronts. In May 1998, however, South Africa was placed back on the Watch List, in part because of a lack of adequate protection of undisclosed data and a law, passed in December 1997, which appears to empower the Minister of Health to abrogate patent rights for pharmaceuticals and permit parallel imports. Implementation of the law has been suspended pending the resolution of a constitutional challenge in the South African courts.

Software piracy occurs frequently in South Africa. The Business Software Alliance (BSA) estimates that as much as 48 percent of South Africa's software is pirated, resulting in a loss of over $54.8 million to computer companies. However, the current 48 percent figure stands as the lowest piracy rate in Africa, and is comparable to BSA's estimates of software piracy in the European Union (46 percent).

Piracy in the video industry is also an issue of concern. Video piracy remains the major audiovisual piracy problem in South Africa. The video piracy rate is relatively low, however, at ten percent. Total annual losses to the U.S. motion picture industry due to audiovisual piracy in South Africa during 1997 are estimated to be $12.0 million.

8. Worker Rights

a. The Right of Association: Freedom of association is guaranteed by the constitution and given statutory effect by the Labor Relations Act (LRA). All workers in the private sector and most in the public are entitled to join a union. Moreover, no employee can be fired or prejudiced because of membership in or advocacy of a trade union. Unions in South Africa have an approximate membership of 2.9 million or 30 percent of the employed population. The right to strike is guaranteed in the constitution, and is given statutory effect by the LRA. The International Labor Organization (ILO) readmitted South Africa in 1994. There is no government restriction against union affiliation with regional or international labor organizations.

b. The Right to Organize and Bargain Collectively: South African law defines and protects the rights to organize and bargain collectively. The government does not interfere with union organizing and generally has not interfered in the collective bargaining process. The new LRA statutorily entrenches "organizational rights," such as trade union access to work sites, deductions for trade union subscriptions, and leave for trade union officials.

c. Prohibition of Forced or Compulsory Labor: Forced labor is illegal under the constitution, and is not practiced.

d. Minimum Age for Employment of Children: Employment of minors under age 15 is prohibited by South African law. The LRA, however, grants the Minister of Welfare discretionary powers to permit employment of children under carefully described conditions in certain types of work, such as in the agricultural sector. Child labor is also used in the informal economy.

e. Acceptable Conditions of Work: There is no legally mandated national minimum wage in South Africa. Instead, the LRA provides a mechanism for negotiations between labor and management to set minimum wage standards industry by industry. In those sectors of the economy not sufficiently organized to engage in the collective bargaining processes which establish minimum wages, the Wage Act grants the Minister of Labor authority to set minimum wages and conditions. While the Wage Act does not apply to farm or domestic workers, these wages are regulated by the government. Occupational health and safety issues remain a top priority of trade unions, especially in the mining and heavy manufacturing industries which are still considered hazardous by international standards.

f. Worker Rights in Sectors with U.S. Investment: The worker rights conditions described above do not differ from those found in sectors with U.S. capital investment.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		1,013
Food & Kindred Products	148	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	90	
Electric & Electronic Equipment	154	
Transportation Equipment	29	
Other Manufacturing	319	
Wholesale Trade		136
Banking		(1)
Finance/Insurance/Real Estate		27
Services		82
Other Industries		747
TOTAL ALL INDUSTRIES		2,347

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.